UNLOCKING MERGERS & ACQUISITIONS

by Steve Brown

As bank M&A activity heats up, bankers may find the results of a recent study interesting. In it, 47 bank holding companies executed a total of 579 mergers and acquisitions. The study analyzed how lessons learned from each acquisition translated into market efficiencies for the next one. In short, the analysis concluded that while certain acquisition work product and knowledge codification (i.e. integration manuals, system applications, decision databases, etc.) help performance, on average, banks must do a string of acquisitions to maximize post-acquisition performance. Because bank M&A is such a low frequency and multi-variable event, being "good at it" does little to help a bank's post-acquisition stock price. Other studies, meanwhile, have found that traditional integrations driven by operations specialists (focused on cutting costs) do not perform as well as those that center on customer retention. Increasingly, bank M&A teams will pull in senior people from sales and marketing, as they strive to put together action plans for retaining the value inherent in target's existing customer base. In addition, managing the merger of cultures needs to be done carefully. Banks should accept this challenge head on to ensure a smooth transition period. While each M&A deal is unique, cultural challenges and poor employee integration often are the primary culprits leading to failure. Employees must be involved in the process if they are to perceive success. Positive feedback from the management of both entities should be reinforced and a feedback loop put in place to expedite solutions and drive organizational commitment. In particular, studies show that the first 60-days are the most critical, so bank M&A teams must adapt quickly to changing processes, continually reinforce the culture, positive aspects and expectations of the new entity. Banks pursuing M&A strategies should note that studies also find that companies have 2 years to make such transactions work. After that, synergies disappear; employee attitudes change and cultural biases become too ingrained to change. Successful acquisitions require a bank to not only find the right candidate, but quickly and comprehensively integrate its people and processes. Finally, size matters. A broad study of over 1,600 companies worldwide found that the most successful acquirers got their greatest returns from targets that were less than 15% of their own size. On average, this group of acquirers outperformed all others by 600%. Banks should keep that in mind when reviewing candidates to purchase. Studies find one of the biggest risks for banks is to acquire a similarly-sized institution in a consolidated, mature market. Heavy competition and increased acquisition difficulty can negatively impact performance. In short, the deeper banks can integrate their operations, systems and people, the better their post-acquisition performance.

BANK NEWS

Acquisition

Cullen/Frost Bankers Inc, ($11.6B, TX) will acquire Summit Bancshares ($1.1B, TX) in a deal valued at nearly $363.5mm or 4.4x book.

Rate Increase

The Bank of Japan will likely raise rate from zero to 0.25% next week, the first such increase in almost six years. The BOJ feels that economic, price and market conditions are falling into place to warrant such a move.

Market Impact

Gold rose to a 4-week high after North Korea fired at least 7 missiles over the Sea of Japan, prompting some investors to buy bullion as a safe-haven.

Economy

A new survey finds only 24% of CFOs are optimistic about the economy, down from 40% in the 1Q.

Believe It

Top market investors Warren Buffet and Bill Gross are both calling for the economy to soften as housing cools and foreign investors seek other investments. Gross indicates he expects the FOMC will have to cut interest rates in 2007.

Boss

A new study finds only 27% of people believe information provided by a CEO can be trusted.

Mutual Funds

The latest data shows mutual fund assets have grown from $7T in 2000 to $9.5T.

Housing

A survey by the NAR finds 3.3mm 2nd homes were purchased last year, roughly split 67% as investment properties and 33% as vacation homes.